

Facing Michigan's Challenge

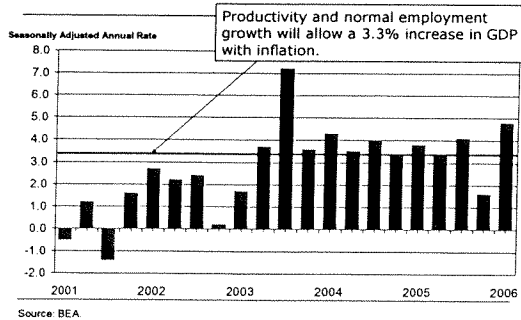
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W.E. Upjohn Institute for Employment Research
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Key Points

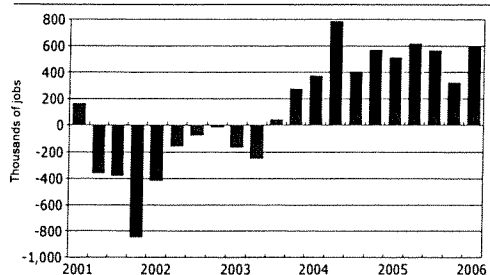
- Despite some warning signs, the economy is expected to grow into 2007.
 - Productivity gains in combination with global competition and declining demand limit manufacturing employment growth.
- Michigan remains highly dependent on manufacturing.
 - Competitiveness remains a challenge.
- Future Issues
 - Forecasting is hard, especially if it is the future.
 - Moving from manufacturing is not easy

Gross Domestic Product

The expansion is three years old and is still going strong in terms of output.



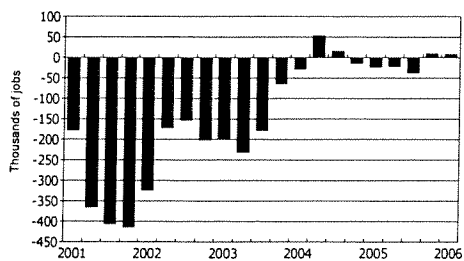
There is clearly a turnaround in national employment growth; however...



National employment increased by 211,000 in March. The nation's unemployment rate fell to 4.7 percent.

Source: BLS.

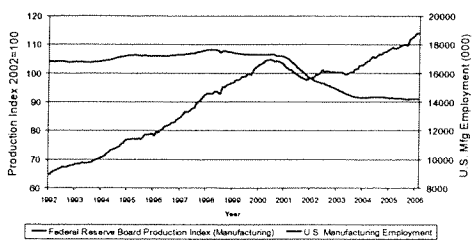
...manufacturing employment conditions are much softer.



5,000 manufacturing jobs were lost in March.

Source: BLS.

Production Index and U.S. Manufacturing Employment – *Manufacturing is doing great!*



Jobs, what new jobs?

- ☐ DaimlerChrysler AG's Chrysler Group announced that it plans to increase its annual production capacity by 43 percent without any new plants or new workers.
- ☐ As reported in *Business Review West Michigan*, the last time Herman Miller was at its current quarterly sales volume, it had 3,000 more employees on the payroll.

The Changing Manufacturing Environment

- ☐ Outstanding productivity gains have limited employment growth in manufacturing.
- ☐ Michigan is losing its dominance as the production center for the auto industry. The Big Three's share of the North American market has dropped to 57 percent.
- ☐ The world's high-growth regions are outside the U.S. Often it makes more sense to produce the goods where they are being sold.
- ☐ Clearly, other nations can assemble goods more cheaply. In China, the cost of factory labor is \$0.57/hr. including benefits.

What has changed in the global marketplace?

- ☐ Developing countries have always held a wage advantage for unskilled work, BUT
- ☐ now they also have expanding skilled labor and professional workforces.

However, developing countries are not supposed to have skilled workers.

Engineers			
	Gross income per year in USD	Net income per year in USD	Weekly working hours
Manila	5,500	4,500	48
Mexico City	8,000	7,000	48
Bangkok	9,800	8,400	48
Shanghai	12,100	8,500	40
Taipei	25,800	20,400	45
Singapore	28,700	20,900	43
Seoul	32,900	25,800	47
Hong Kong	38,200	38,500	44
Chicago	57,100	41,800	40

Source: UBS

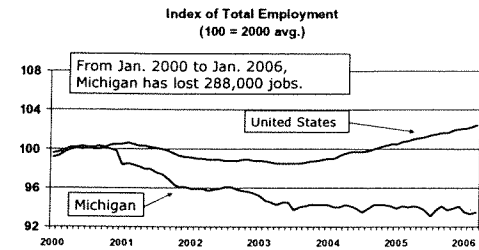
And, our advantage has always been our skilled workers.

Skilled industrial workers			
	Gross income per year in USD	Net income per year in USD	Weekly working hours
Jakarta	3,300	3,000	44
Mexico City	3,600	3,400	48
Manila	4,200	3,700	48
Bangkok	4,200	4,000	48
Shanghai	4,600	3,400	40
Singapore	17,000	13,400	43
Hong Kong	17,300	15,300	50
Taipei	22,200	18,400	46
Seoul	34,600	25,400	47
Chicago	43,800	32,400	40

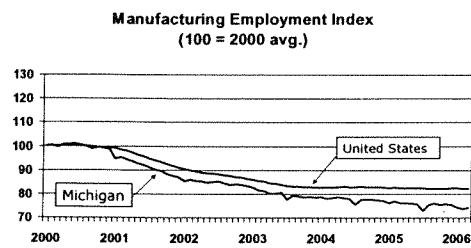
Source: UBS

Turning to Michigan

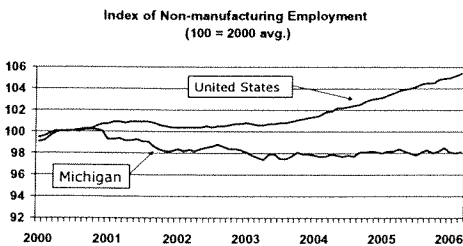
Compared to the U.S., employment conditions in Michigan have not recovered.



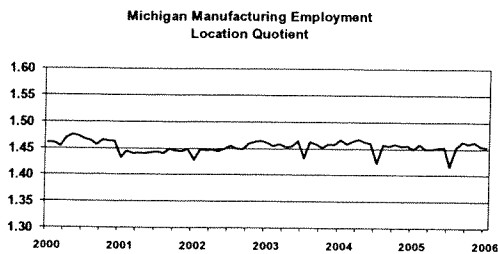
Michigan's manufacturing losses have followed and exceeded national trends.



Non-manufacturing employment is fueling growth nationally—but not in Michigan.

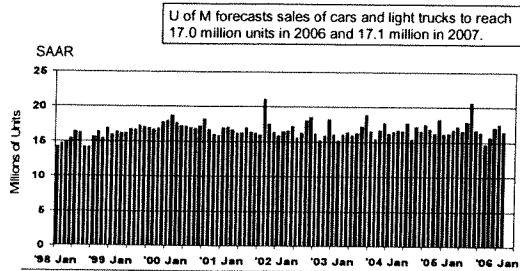


Michigan's concentration of manufacturing has remained relatively constant despite recent losses.

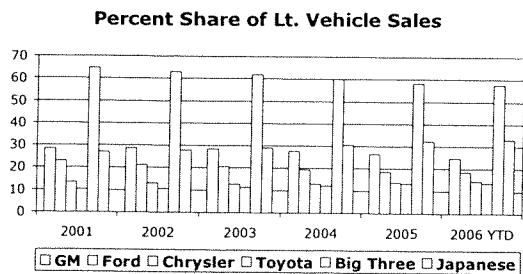


Source: BLS.

The state's woes can be partially blamed on a stagnant auto and light truck market; however, it is more about share.



Big Three's share has dropped from 64.5% to 57.4% in less than five years

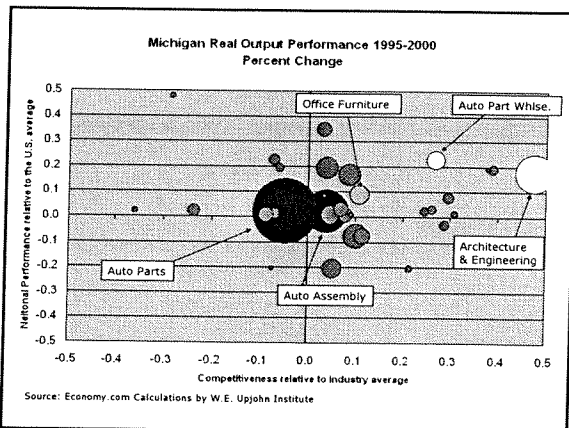


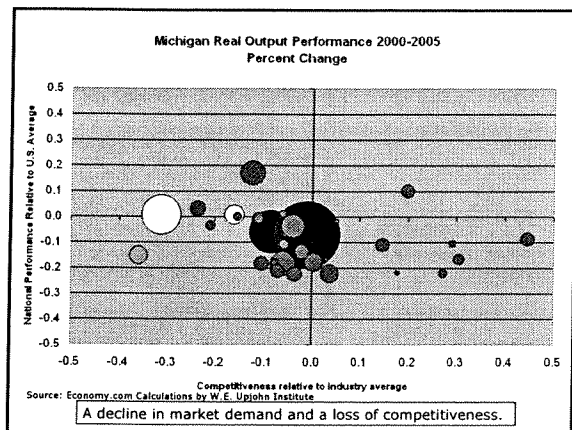
The Michigan economy is expected to remain flat in 2006 and 2007.

- ☐ The big question facing the state is what will be its economic drivers for the coming decade. Could be:
 - Advanced manufacturing
 - Alternative fuels
 - Bio-tech
 - 101 other things

Economic growth depends upon:

- ☐ The success of the state's base industries (those selling goods and services to customers outside the state).
- ☐ And the success of the state's base industries depend upon:
 - The strength of national and international markets, and
 - competitiveness.





Switching engines is never easy.

- ☐ Michigan's economic structure has been built on producing goods, especially autos.
- ☐ The transition from a goods-producing economy to a combined goods- and service-producing economy will be difficult.

The Auto Industry Swings a Big Bat

Economic Impact of 100 New Jobs

	Motor Vehicles	Professional and Technical	Hospitals
Direct Impact - New Jobs	100	100	100
Manufacturing	58	4	4
Retail and Wholesale Trade	79	20	15
Services Employment	142	55	40
Profess. Tech Services Employment	30	9	6
Health Care, Social Asst Emp Employment	13	6	4
Total employment	447	203	181
Multiplier	4.5	2.0	1.8
Change in Personal Income (\$000)	18,680	8,484	6,287

Source: W.E. Upjohn Institute

Challenges in Moving to a Knowledge-based Economy

- ☐ Small impact – *Need to create more jobs than are being lost in manufacturing.*
- ☐ What about the 45-year-old working mom? *Displaced manufacturing workers seldom recover, but their best chance is to stay in manufacturing.*
- ☐ Many of the state's economic development tools are still focused on manufacturing. *What is the value of a PA198 tax abatement to a software developer?*

Challenges in Moving to a Knowledge-based Economy (cont'd)

- ☐ Base services "hatch" differently than manufacturers. *They are more difficult to identify.*
- ☐ Switching from attracting physical capital to human capital is not easy. *Increase demand for education and public services*

What does this mean for the state's future?

- ☐ University of Michigan's forecast for flat employment conditions in 2006 and sluggish growth in 2007 seems about right.
- ☐ Global pressures will only add to the push to become more productive. Today, the nation's manufacturers are producing record volumes of output with a workforce that is smaller than in the 1950s.
- ☐ The state's tax structure will not allow government revenues to grow with the changing economy.

What does this mean for the state's future?

- ☐ Manufacturing will remain the foundation of the state's economy, but growth will occur elsewhere.
- ☐ Picking winners is highly tempting but seldom successful. Growth will come from many different sectors and some will likely surprise us all.
- ☐ To attractive knowledge-based workers, education, vibrant cities, and quality public services will become increasingly important.

What about taxes?

- ☐ Overall, taxes in Michigan are below the national average.
- ☐ There is strong evidence that the state is facing a structural deficit given its tax structure.
- ☐ Most economists would agree: tax goals should be:
 - Broaden the base and lower the rate.
 - Similar investments and incomes should be taxed at similar rates.

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